



August 23, 2010

Mr. Phillip Isenberg
Chair, Delta Stewardship Council
650 Capitol Mall, 5th Floor
Sacramento, California 95814

Re: Comments on Third Draft Interim Delta Plan

Dear Mr. Isenberg:

The Northern California Water Association (NCWA) and the Regional Water Authority (RWA) appreciate the opportunity to comment on the third draft of the interim Delta Plan. While we appreciate some important changes that have been made from prior drafts, the addition of substantial discussions of “best available science” and of a financing plan in this draft cause us serious concern. Given the late addition of this material and the fact that the interim Delta Plan will not have legal effect, we therefore recommend that the Delta Stewardship Council make the following changes to the third draft interim Delta Plan:

- Revise the Plan’s executive summary to delete the reference on page v to the State Water Resources Control Board’s Delta flow criteria being “one of the early considerations of Delta water flow by the Council;”
- Delete the discussion of “best available science” and insert a statement that the Council intends to address that topic in the long-term Delta Plan after receiving the input of the workgroups established by the Council; and
- Delete the discussion of a financing plan and insert a statement that the Council intends to address that topic in the long-term Delta Plan after receiving the input of the workgroups established by the Council.

NCWA and RWA

NCWA is an association of water suppliers throughout the Sacramento Valley, whose diversions supply over 2,000,000 acres of farms and much of the habitat for birds using the Pacific Flyway. NCWA’s members also have helped the state as a whole through numerous drought years by providing the vast majority of water that has been transferred in California.

RWA is a joint powers authority that serves and represents 21 water suppliers in the greater Sacramento region, including portions of Sacramento, Placer, El Dorado and

Yolo Counties. RWA's members supply water to approximately 1,500,000 people in the Sacramento region. Members of RWA also have assisted water-short regions of the state by transferring water to them in drought years, including in 2009 and 2010. RWA members negotiated and signed the historic Sacramento Water Forum Agreement, which balanced the coequal objectives of reliable water supplies and protection of the lower American River.

*Improved Discussion of SWRCB Delta Flow Criteria and Related
Proposed Edits*

NCWA and RWA appreciate that the draft interim plan's discussion of the State Water Resources Control Board's (SWRCB) Delta flow criteria has been clarified. The text of the draft plan itself no longer refers to those criteria as a "tool" that the Council will use to evaluate information or as an "early consideration of Delta water flow." This is appropriate because the SWRCB clearly stated that it did not consider any water-supply impacts in adopting those criteria and, as discussed more thoroughly in NCWA's August 3, 2010 letter to the Council, those criteria do not implement the coequal goals that govern the Council. The draft interim plan's executive summary should be revised similarly because it still refers to the SWRCB's Delta flow criteria as "one of the early considerations of Delta water flow by the Council." (Third draft interim Delta Plan (clean version), p. v.) That characterization does not accurately summarize the draft interim plan's discussion of the SWRCB's Delta flow criteria. The first sentence on page v of the executive summary under the heading "Delta water flows" therefore should be deleted and replaced with:

The SWRCB has adopted non-binding Delta flow criteria under Water Code section 85086.

*The New Discussion of "Best Available Science" Should Be Deleted And
Reserved for Further Discussion for Possible Inclusion in the Long-Term
Delta Plan*

The draft interim plan that the Council released for review on August 16 includes, for the first time, an extensive discussion of what the Council will consider the "best available science." This discussion relies on, among other things, peer review of scientific information as a standard that the Council will use for evaluating whether information is sufficiently reliable. For the reasons discussed below, we recommend that the Council delete that discussion and reserve its topic for discussion in the long-term Delta Plan after receiving input from the Council's workgroups.

The Council, however, must be careful to tailor its standards to conform to the practices of the scientific and engineering communities that will produce information for the Council's consideration. For example, hydrological modeling of proposed facilities, water projects or environmental standards will be crucial for the Council to review in order to determine whether an action that it is considering can be implemented consistent with the coequal goals. In many cases, such modeling will be the only way for the

Council to determine whether a proposed action is consistent with the coequal goals. It is not the practice of hydrological modelers, however, to subject model runs to published peer reviews because they work within a management context, rather than an academic one. For example, while the fundamental CALSIM model that is used to evaluate how California's water system will react to given proposals has been peer-reviewed, individual runs of that model that reflect particular proposals generally are not peer-reviewed. The Council must be extremely careful to ensure that any general standards about "best available science" that it adopts do not exclude information from particular scientific and engineering communities from the Council's consideration because the Council's standards are not consistent with those communities' professional practices.

The new discussion of "best available science" in the third draft interim Delta Plan unfortunately does not describe how the Council will review information from California's various scientific and engineering communities, given those communities' professional practices. Instead, that discussion would seem to apply without adjustment to all possible types of scientific information. Using the workgroups that the Council has established to help define how the Council should handle information provided by the various professional communities that practice in fields relevant to the Council's work could be very beneficial.

The Council should not vote to approve standards concerning "best available science" that do not reflect the diversity of information that the Council will receive and that have been available for public review for only 11 days. NCWA and RWA therefore urge the Council to delete that discussion from the interim Delta Plan and instead reserve consideration of what is "best available science" for development in the long-term Delta Plan. Such an approach would not create any problems for the Council because, as the draft interim plan recognizes, the interim plan will not have regulatory effect.

*The New Discussion of A Finance Plan Should Be Deleted And Reserved
for Further Discussion for Possible Inclusion in the Long-Term Delta
Plan*

Similar to the third draft interim Delta Plan's discussion of "best available science," that draft contains an extensively revised discussion of a finance plan. Unfortunately, that discussion is not transparent and could be misinterpreted to suggest that there is an existing well of local funding that the Council could tap. We therefore recommend that the discussion be deleted and replaced with statements that the Council intends to work on a finance plan under the long-term Delta Plan, with input from the workgroups established by the Council.

The draft interim plan that the Council released on August 16 contains a much more extensive discussion of the possibility of imposing fees on water users, among others, to fund Delta programs. The draft interim plan (pp. 50-54) states, among other things:

[A recent] BDCP update includes estimated ecosystem related projects total[ing] from \$16.2 billion to \$16.5 billion over 50 years . . .

Data for financing from water users and local funding is no longer systematically collected, but it has represented large amounts of funding in the past . . .

Funding derived from users has long been a feature of water project funding, and some ecosystem restoration has been funded as mitigation for projects, including water projects . . .

Several fee proposals have been advanced; some workable package of such fees must be developed to support implementation of SBX7 1 . . .

A user-based funding system that includes some broad measures of resource use and also targets specific stressors for fee payments is a possible starting point that can be adjusted over time based on experience gathered on the amounts of revenue generated and the effects of fees on behaviors.

All of these statements require more attention than the Council and the public can give the subject in the 11 days between the August 16 issuance of the third draft interim plan and the August 27 meeting at which the Council is scheduled to adopt the interim plan.

This is particularly true because the third draft interim plan's discussion of past "water users/local funding" contains serious flaws. Table 5-2 is entitled "Finances of Activities in the Delta (Under Development)," suggesting that all of the finances reflected in the table are available for possible use in funding implementation of a Delta Plan. That table indicates that: (1) in fiscal years 00-01 through 03-04, \$308,361,578 of "water users/local funding" was available; and (2) in fiscal years 04-05 through 08-09, \$445,898,000 was available from that source.

The sources of information for those table entries, however, are either unclear or contradict the suggestion that similar amounts of water-user fees would be available for Delta Plan implementation. These sources are not appropriate to support the third draft interim Delta Plan's much stronger discussion of user fees.

For the 04-05 through 08-09 data, Table 5-2 cites, in its footnotes, "Provided by Council staff from CALFED Project Performance Information System, July 9, 2010" as the data source for that information. It is not possible for the public to determine exactly what documents it should review to determine the accuracy of the stated information.

For the 00-01 through 03-04 data, Table 5-2 cites, as its data source, "California Department of Finance, *A Fiscal Review of the CALFED Bay-Delta Program: Summary of Expenditures as of September 30, 2004*" (*CALFED Fiscal Review* – copy enclosed).

That document, however, does not indicate that the stated amounts are either certain or available for Delta funding. That document instead states that there are significant uncertainties regarding state agencies' tracking of the amount of local funds dedicated to projects that received CALFED funding. (*CALFED Fiscal Review*, pp. 5, 10.) Perhaps even more importantly, that document indicates that the referenced local funding was for "local grant matching" (*CALFED Fiscal Review*, p. 7), which presumably means that local funds were spent for local benefits. This does not mean that similar amounts of money would be available for the Council to obtain in user fees, particularly given that Proposition 218 constitutionally prohibits local water and sewer agencies from charging rates that exceed those agencies' costs of service.


The subject of a Delta finance plan is much too complicated and contentious for the Council to make significant statements about it on 11 days' notice. Accordingly, the Council should delete the finance-plan discussion contained in the third draft interim plan and should state the Council intends to work on developing a finance plan under the long-term Delta Plan, after obtaining input from the workgroups established by the Council. Such an approach would have no significant impact on the Council's operations, given that the interim Delta Plan will have no regulatory effect, the Council has sufficient bond funding its near term operations and the long-term Delta Plan is already under development.


Conclusion

We appreciate the opportunity to comment on the third draft interim Delta Plan. As discussed above, we believe that it improves upon the second draft in important ways, but that late and significant additions to the draft on the subjects of "best available science" and a finance plan are better left for discussions concerning the long-term Delta Plan.

Very truly yours,

NORTHERN CALIFORNIA WATER REGIONAL WATER AUTHORITY
ASSOCIATION

By: 
David Guy
President

By: 
John Woodling
Executive Director

Enclosure
L082310rsb



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

February 6, 2006

Honorable Michael Chrisman, Secretary
Resources Agency
1416 Ninth Street, Suite 1311
Sacramento, CA 95814

Dear Mr. Chrisman:

I am transmitting to you the enclosed final report on the fiscal review of the CALFED Bay-Delta Program (CALFED) through state and federal fiscal years ending in 2004. This fiscal review was conducted by the Office of State Audits and Evaluations in the Department of Finance. The purpose of the fiscal review was to summarize the funds expended on CALFED since the inception and report any control and accountability issues related to expenditure tracking. This report is in response to the Administration's commitment, in the 2005-06 May Revision, to conduct an independent fiscal review of CALFED.

The CALFED Bay-Delta Program is a cooperative effort among 25 state and federal agencies whose goal is to develop and implement a long-term comprehensive plan that will restore ecological health and improve water management for the Bay-Delta System. The program, which began in 1995, includes stakeholders from governmental, agricultural, environmental, fishery, urban water, and tribal interests. In 2000, the program's objectives were formalized in a 30-year plan, referred to as the Record of Decision (ROD), which contained specific actions and milestones.

The work summarized in this report is the result of a fiscal review, rather than a full audit; conducting a fiscal audit would have taken more time than was allotted for the current review. Our review found that the state implementing agencies lack sufficient procedures for recording and reporting complete and accurate expenditures by program element. We identified areas where the control and accountability for program funds could be strengthened, and we provided recommendations to improve fiscal operations. The control issues we identified pertain to program cost accounting, reconciliation, coordination, and documentation. We believe that our review and recommendations will be useful to the overall effort to revitalize CALFED.

The enclosed final report includes the Resources Agency's response.

If you have any questions, please contact Tom Dithridge, Program Budget Manager, at (916) 445-3274.

Sincerely,

Original Signed By:

MICHAEL C. GENEST
Director

Enclosure

cc: Mr. P. Joseph Grindstaff, Director, California Bay-Delta Authority

CALFED Bay-Delta Program
Summary of Expenditures
As of September 30, 2004

Prepared By:
Office of State Audits and Evaluations
Department of Finance

TABLE OF CONTENTS

| | |
|----------------------------------|-----|
| Preface..... | iii |
| Executive Summary | iv |
| Background and Methodology | 1 |
| Results of Fiscal Review | 5 |
| Observations..... | 11 |
| Conclusion | 13 |
| Response | 14 |

The Department of Finance, Office of State Audits and Evaluations, performed this review in accordance with the 2005 Budget Act. The review's purpose was to summarize the cumulative state, local, and federal funds expended on the CALFED Bay-Delta Program (program) through their respective fiscal years ending in 2004. Specifically, our objectives were to:

- Obtain from state and federal implementing agencies, a summary of their cumulative expenditures by program element, from program inception through their respective fiscal years ending in 2004.
- Assess the adequacy of state-level tracking of local funds expended on the program.
- Identify where the control and accountability for program funds could be improved.

We did not audit the program expenditures, nor did we conduct a performance review to assess the effectiveness and efficiency of the program's operations or program compliance. The scope of our review was limited to summarizing fiscal information as recorded by the implementing agencies.

STAFF:

Richard R. Sierra, CPA
Manager

Rebecca McAllister, CPA
Supervisor

Blanca Cornejo
Richard Faust
Mana Moarefparvar
Lisa Negri
John Ponce
Evelyn Suess
Nichelle Thomas
Kelly Wyatt

EXECUTIVE SUMMARY

During our review of the CALFED Bay-Delta Program expenditures, we determined the following:

As of June 30, 2004:

- State General Funds expenditures on the program since the August 2000 Record of Decision totaled \$217.5 million.
- State bond funds (Propositions 204, 13, and 50) expended on the program since the August 2000 Record of Decision totaled \$805.1 million.
- State agencies' tracking of local funds used to implement the CALFED Program since the Record of Decision, or those associated with grants from state bond funds could be improved.

As of September 30, 2004:

- Federal funds expended on the program, including funds from the initial federal authorization (pre-Record of Decision), and since the Record of Decision (federal fiscal year beginning October 1, 2000) totaled \$591.7 million.

Observations

State implementing agencies lack sufficient procedures for recording and reporting complete and accurate expenditures by program element. As discussed in the *Observations* section of this report, we identified areas where the control and accountability for program funds could be strengthened, and we provided recommendations to improve fiscal operations. The control issues we identified pertain to program cost accounting, reconciliation, coordination, and documentation.

BACKGROUND AND METHODOLOGY

Background

The CALFED Bay-Delta Program (program) is a cooperative effort among 25 state and federal agencies whose goal is to develop and implement a long-term comprehensive plan that will restore ecological health and improve water management for the Bay-Delta System. The program, which began in 1995, comprises stakeholders from governmental, agricultural, environmental, fishery, urban water, and tribal interests. In 2000, the program's objectives were formalized in a 30-year plan, referred to as the Record of Decision (ROD), which contained specific actions and milestones.

The ROD identified four objectives: Water Supply Reliability, Levee Systems Integrity, Water Quality, and Ecosystem Restoration, and 11 major elements to achieve the program's long-term goals. Program funding is provided by federal, state, and local agencies, and water users. State funding has been provided through General Fund appropriations and appropriations from several bond measures.

Established by the California Bay-Delta Act of 2003, the California Bay-Delta Authority (Authority) coordinates and oversees program implementation for all participating state and federal agencies. The Authority reviews, approves, and recommends annual program plans and project expenditures, and reports to policymakers and stakeholders on program status. The Authority submits an annual report to the Governor, the California Legislature, the Secretary of the Interior, and the United States Congress, discussing the program's progress over the prior fiscal year. Additionally, the Authority prepares and submits the program's annual budget to the Department of Finance.

In response to concerns raised by the California Legislature, Legislative Analyst's Office, and California Performance Review (related to program financing and progress), the Governor directed a three-point plan to address the concerns:

1. Conduct an independent program and fiscal review to ensure program accountability, highlight accomplishments, determine program status, and guide adjustments.
2. Re-focus the Authority's and other administering state agencies' program priorities and efforts to solve conflicts associated with Delta water supply, water quality, levee stability, and the environment.
3. Develop a ten-year financing/action plan to solve the highest priority Delta issues, link future water payments to specific program actions, and balance statewide actions, including funding from state, federal, and local sources consistent with the beneficiaries-pay principle.

Accordingly, the Resources Agency contracted with the Department of Finance (Finance) to perform the independent program and fiscal review (objective one). For this objective, Finance's Office of State Audits and Evaluations conducted the fiscal review (reported herein),

and its Performance Review Unit conducted the program review (reported separately). The Authority contracted with an outside consultant to perform objectives two and three.

Concurrent with the above reviews, the Governor also requested the Little Hoover Commission to review governance issues related to the program and the proper role of the Authority, and to prepare a report of findings and recommendations to improve the program's performance.

Project Scope

The scope of the independent fiscal review involved documenting the funds expended on each program element as follows:

- a. State General Fund appropriations since the ROD was adopted in August 2000 (state fiscal year beginning July 1, 2000 through latest available data).
- b. All state bond funds directed to the CALFED program (Propositions 204, 13, and 50).
- c. Federal funds appropriated to the CALFED program, including funds from the initial federal authorization (pre-ROD), and since the ROD (federal fiscal year beginning October 1, 2000 through latest available data).

Our work consisted of compiling agency-reported information and did not constitute an audit; however, we reviewed the reported information for reasonableness and consulted with reporting agencies as needed. As of the date of our fieldwork, expenditure information was available through June 30, 2004 (state) and September 30, 2004 (federal), and our report reflects program results as of these dates.

We also reviewed the existence and adequacy of state-level tracking of local funds used to implement the CALFED program since the ROD, or those associated with grants from the state bond funds (Propositions 204, 13, and 50).

In connection with the above procedures, we identified opportunities for improvement in the control and accountability for program funds, and made recommendations for improving fiscal operations as described in the *Observations* section of this report.

Methodology

To gain an understanding of the program's fiscal activities and operations, we reviewed applicable laws and regulations, reviewed policies and procedures, interviewed Authority and implementing agencies' management and staff, attended management meetings, reviewed accounting records and financial reports, and compared recorded information with external reports and other documentation where available.

State Expenditures

State expenditures are primarily funded from General Fund and bond funds. To identify program expenditures by element, we obtained and reviewed each implementing state agency's pertinent accounting reports and financial statements for the period July 1, 1996 through June 30, 2004.

A number of state implementing agencies record program expenditures in funds that also support other (non-CALFED) programs; however, these agencies' accounting systems and financial reports did not clearly identify specific CALFED expenditures. For our review,

agencies had to prepare special spreadsheets and schedules (at considerable effort) that identified CALFED expenditures from the General Fund and bond fund appropriations. We recalculated the scheduled amounts and reviewed them for reasonableness.

For bond-funded expenditures, we performed the following procedures:

- Proposition 204 (Safe, Clean, Reliable Water Supply Act)—We derived program expenditures from the related appropriations of Proposition 204 funds to the Resources Agency, California Bay-Delta Authority, and the Department of Water Resources. We compiled the specific program expenditures based on supporting accounting records, and traced the amounts to the related year-end financial reports. This sometimes involved obtaining additional supplemental/subsidiary expenditure detail in instances where expenditures for multiple programs were combined within one fund (as noted above). We reviewed the expenditures for reasonableness.
- Proposition 13 (Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act)—We derived program expenditures from the related appropriations of Proposition 13 funds to the Wildlife Conservation Board, Department of Water Resources, and State Water Resources Control Board. We compiled the specific program expenditures using the same approach as for Proposition 204, and reviewed the expenditures for reasonableness.
- Proposition 50 (Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002)—We derived program expenditures from the related appropriations of Proposition 50 funds to the California Bay-Delta Authority, Department of Fish and Game, Department of Water Resources, Department of Forestry and Fire Protection, and State Water Resources Control Board. We compiled the specific program expenditures using the same approach as for Proposition 204, and reviewed the expenditures for reasonableness.

Federal Expenditures

The program is funded by a number of federal agencies which the Authority groups into two major expenditure categories for its annual report: (1) U.S. Bureau of Reclamation (USBR), and (2) Other Federal Agencies (comprising U.S. Army Corps of Engineers, U.S. Natural Resources Conservation Service, U.S. National Oceanic and Atmospheric Administration, U.S. Geological Survey, U.S. Fish and Wildlife Service, and U.S. Environmental Protection Agency). We requested information from the federal agencies to support the actual program payments made; however, due to decentralization and complexities in federal accounting systems, this information was not readily available and not provided for our review. Alternatively, the U.S. Bureau of Reclamation provided cross-cut budget information for all participating federal agencies for the period October 1, 1997 through September 30, 2004. We recalculated the reported amounts and traced them to the U.S. Office of Management and Budget's CALFED Bay-Delta Program, Crosscut Budget Supplemental Report. The Authority's staff provided additional information supporting adjustments made to the federal cross-cut budgets for its annual report. We recalculated the adjustments and reviewed them for reasonableness. Accordingly, the federal amounts on Tables 1 through 7 primarily represent obligations (budgeted/estimated expenditures).

Local Expenditures

Local funding is comprised of State Water Project (SWP), Central Valley Project Improvement Act (CVPIA) Restoration Funds, and grant matching funds. We performed the following procedures on local funding:

- SWP amounts represent actual expenditures for state fiscal years 2000-01 through 2003-04 as reported by the Department of Water Resources. We reviewed the reported fiscal information for reasonableness and traced amounts to the supporting accounting records.
- CVPIA Restoration Fund amounts represent estimated expenditures for federal fiscal years 2000-01 through 2003-04 as reported by the U.S. Bureau of Reclamation. CVPIA Restoration Funds are obtained from water users and are reported along with federal expenditures. We recalculated the reported amounts and traced them to the U.S. Office of Management and Budget's CALFED Bay-Delta Program, Crosscut Budget Supplemental Report.
- Local Grant Match is comprised of the local contribution of Title XVI recycling project funds reported by the U.S. Bureau of Reclamation, and estimated local matching funds reported by various implementing agencies' program staff. We obtained these amounts from the Authority; they are deemed self-reported and unverified. Refer to the *Results* section for additional discussion.

RESULTS OF FISCAL REVIEW

The information presented in this section and on the accompanying tables was prepared from the accounts and financial transactions of the implementing agencies. We compiled and reviewed the financial information for reasonableness. Because the information was self-reported by the implementing agencies, these agencies assume responsibility for its accuracy and completeness. The information presented is for the period July 1, 1996 to June 30, 2004 (state expenditures) and October 1, 1997 to September 30, 2004 (federal expenditures). Table 1 summarizes the review results by scope area.

Table 1

| Scope Area | Results |
|---|---|
| State General Fund expenditures since the ROD was adopted in August 2000 (state fiscal year beginning July 1, 2000 through latest available data [June 30, 2004]). | Identified \$217.5 million in General Fund expenditures |
| State bond funds expended (Propositions 204, 13, and 50) through latest available data [June 30, 2004]. | Identified \$416.2 million in Prop 204 expenditures Identified \$250.9 million in Prop 13 expenditures Identified \$138 million in Prop 50 expenditures |
| Federal funds expended, including funds from the initial federal authorization (pre-ROD), and since the ROD (federal fiscal year beginning October 1, 2000 through latest available data [September 30, 2004]). | Identified \$349.2 million in Pre-ROD federal expenditures* Identified \$242.5 million in Post-ROD federal expenditures* *estimated federal expenditures based on cross-cut budgets |
| Determine the existence and adequacy of state-level tracking of local funds used to implement the CALFED program since the ROD, or those associated with grants from the state bond funds (Propositions 204, 13, and 50). | Implementing agencies are not tracking local expenditures. Reported amounts are estimates and there is no assurance regarding accuracy and completeness. |

Pre-ROD Expenditures

Prior to the 2000 enactment of the ROD, program activities were funded by several federal agencies, the State of California (via the Department of Water Resources), local funding through the State Water Project, and local grant matching funds through the CVPIA program. We summarized the pre-ROD expenditures for the period beginning July 1, 1996 through June 30, 2000 (state) and October 1, 1997 to September 30, 2000 (federal). The total pre-ROD expenditures were \$448.2 million, of which state expenditures totaled \$50.3 million, local expenditures totaled \$48.7 million, and federal expenditures totaled \$349.2 million. Table 2 illustrates the relative percentage of pre-ROD expenditures by funding source.

Table 2

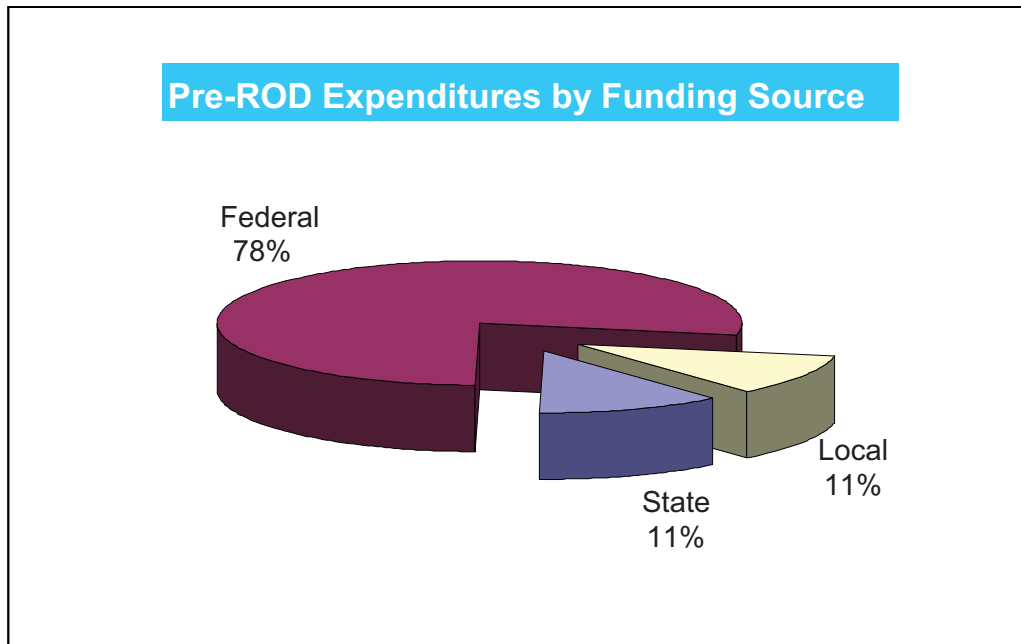


Table 3 summarizes the federal pre-ROD obligations/expenditures by program element.

Table 3

| Federal Pre-ROD Expenditures by Program Element | | | | |
|---|---------------|--------------|---------------|---------------|
| Program Element | 1998 | 1999 | 2000 | TOTAL |
| Conveyance | | | \$4,586,000 | \$4,586,000 |
| Drinking Water Quality | | | 2,120,000 | 2,120,000 |
| Ecosystem Restoration | \$82,026,000 | \$46,249,000 | 38,832,000 | 167,107,000 |
| Environmental Water Account | | | 10,074,000 | 10,074,000 |
| Levees | | | 76,000 | 76,000 |
| Oversight and Coordination | 7,274,000 | 2,128,000 | 1,808,000 | 11,210,000 |
| Science | 6,865,000 | 7,433,000 | 8,510,000 | 22,808,000 |
| Storage | | | 2,000 | 2,000 |
| Water Transfers | | | 320,000 | 320,000 |
| Water Use Efficiency | 33,735,000 | 28,700,000 | 67,204,000 | 129,639,000 |
| Watershed Management | | | 1,254,000 | 1,254,000 |
| Grand Total | \$129,900,000 | \$84,510,000 | \$134,786,000 | \$349,196,000 |

Post-ROD Expenditures

Funding for post-ROD expenditures was provided by several state, federal, and local agencies. We summarized the post-ROD expenditures and encumbrances for the period July 1, 2000 to June 30, 2004 (state) and October 1, 2000 to September 30, 2004 (federal). The total post-ROD expenditures were \$2.508 billion, of which state expenditures totaled \$1.032 billion, federal expenditures totaled \$242.5 million, and local expenditures totaled \$1.233 billion. Table 4 illustrates the relative percentage of post-ROD expenditures by funding source.

Table 4

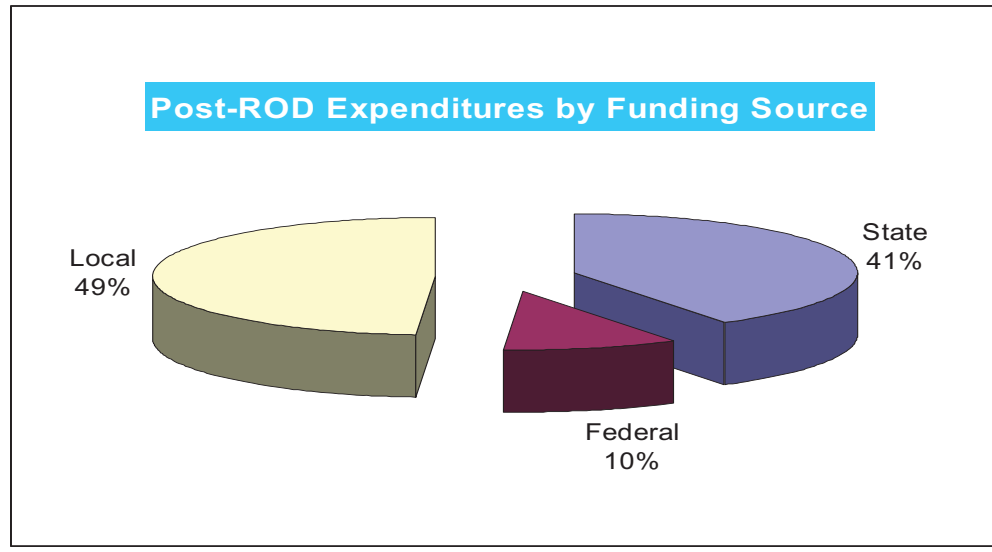


Table 5 further illustrates the local funding by source.

Table 5

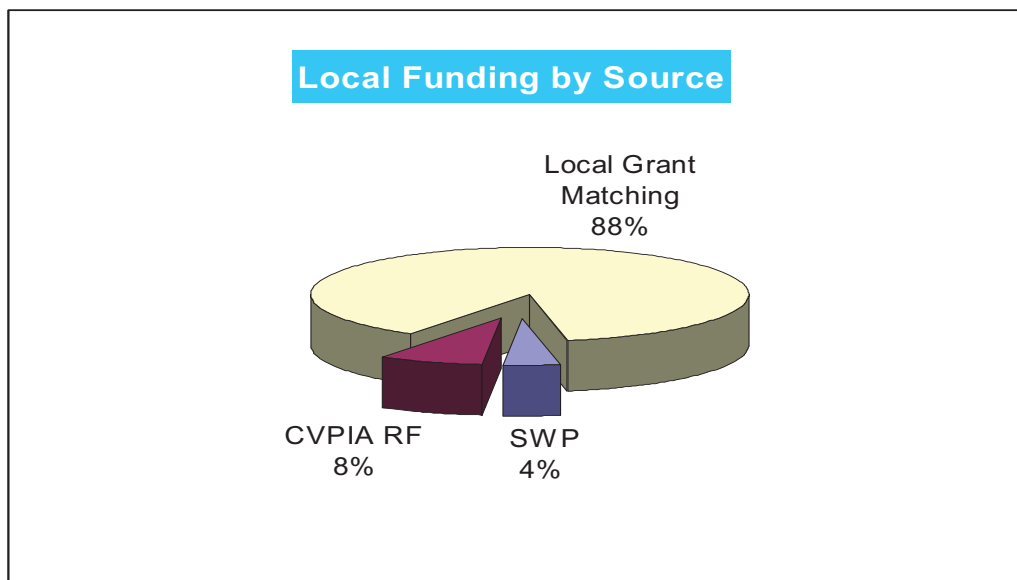


Table 6 illustrates the relative post-ROD expenditures by program element. The uncategorized amount consists of program expenditures funded through the Department of Water Resources and expended by the Authority during state fiscal years 2000-01 through 2002-03, that were not identified by program element in the accounting records.

Table 6

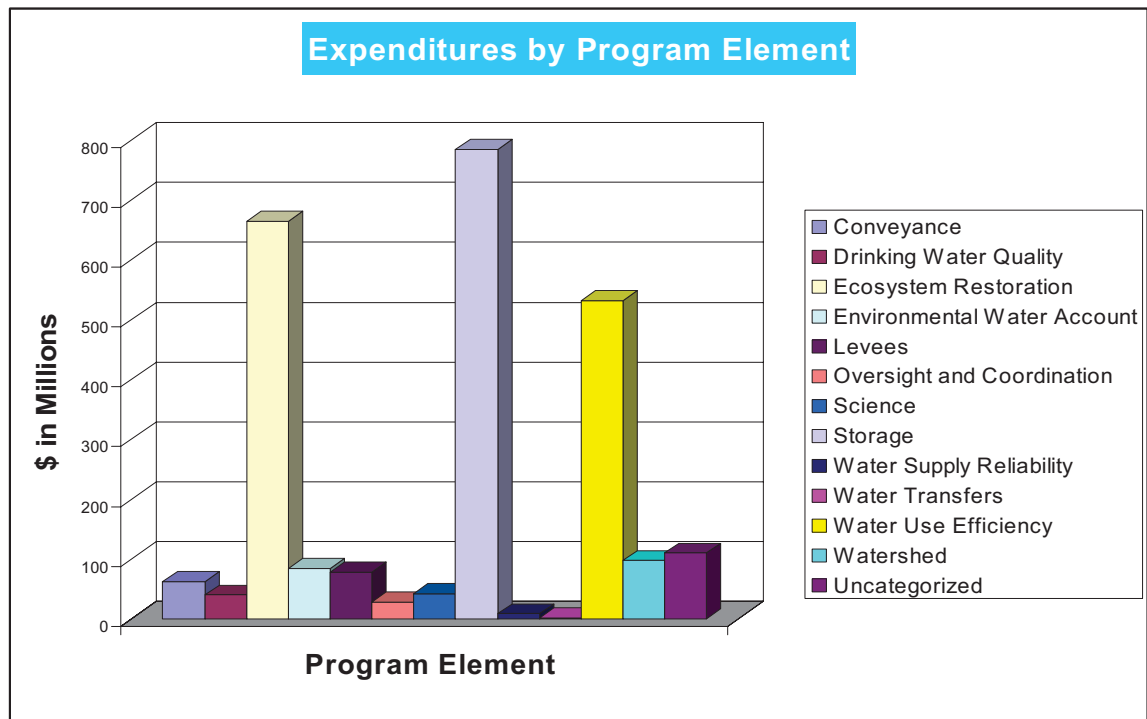


Table 7 on the following page summarizes post-ROD expenditures by funding source and program element and pre-ROD expenditures by program element. The expenditures are presented as follows:

| Category | Basis of presentation |
|----------------------|---|
| Pre-ROD expenditures | actual (state) and estimated (federal) expenditures |
| State General Fund | actual expenditures |
| State bond funds | actual expenditures (Propositions 204, 13, & 50) |
| Other state funds | actual expenditures |
| USBR | obligations (budgeted/estimated expenditures) |
| Other federal funds | obligations (budgeted/estimated expenditures) |
| SWP funds | actual expenditures |
| CVPIA funds | obligations (budgeted/estimated expenditures) |
| Local matching funds | budgeted/estimated expenditures |

Table 7

| CALFED BAY-DELTA PROGRAM EXPENDITURES | | | | | | | | | | | | |
|---------------------------------------|----------------------|------------------------|----------------------------|----------------------|----------------------|------------------------------|-----------------------------------|----------------------|-------------------------------------|---------------------|-----------------------|--------------------------------------|
| Program Element | Total Pre-ROD | Total Years 1 - 4 | State Funding ¹ | | | Federal Funding ² | | | Water Users/ Local Funding | | | Local Grant Matching ⁵ |
| | | | General Fund | Prop 204 | Prop 13 | Prop 50 | Other State Funds ³ | USBR | Other Federal Funds ⁴ | SWP ¹ | CVPIA RF ² | |
| Conveyance | \$4,586,000 | \$62,234,995 | \$4,506,620 | 0 | \$34,551,158 | \$454,278 | 0 | \$12,322,000 | 0 | \$2,432,939 | \$7,968,000 | 0 |
| Drinking Water Quality | 2,877,416 | 32,987,789 | 3,342,621 | 0 | 13,426,232 | 10,484,936 | 0 | (120,000) | 0 | 0 | 0 | \$5,854,000 |
| Ecosystem Restoration | 238,177,541 | 668,854,146 | 7,404,170 | \$369,405,360 | 13,598,245 | 4,645,208 | 0 | 52,978,000 | \$15,560,000 | 45,308,163 | 87,244,000 | 72,711,000 |
| Environmental Water Account | 10,074,000 | 84,052,525 | 1,248,740 | 46,743,510 | 0 | 18,061,275 | 0 | 17,524,000 | 475,000 | 0 | 0 | 0 |
| Levees | 3,215,394 | 77,652,598 | 2,795,678 | 0 | 38,331,360 | 22,458,060 | 0 | 106,000 | 457,000 | 4,500 | 0 | 13,500,000 |
| Oversight and Coordination | 11,210,000 | 28,320,755 | 22,798,323 | 34,432 | 0 | 0 | 0 | 4,306,000 | 1,182,000 | 0 | 0 | 0 |
| Science | 23,855,193 | 42,406,177 | 2,954,535 | 0 | 0 | 2,778,884 | \$3,418,049 | 21,450,000 | 7,436,000 | 3,580,709 | 0 | 788,000 |
| Storage | 9,419,086 | 789,743,702 | 41,967,745 | 0 | 93,617,902 | 27,321,055 | 0 | 26,837,000 | 0 | 0 | 0 | 600,000,000 |
| Water Supply Reliability | 0 | 9,045,776 | 0 | 0 | 0 | 9,045,776 | 0 | 0 | 0 | 0 | 0 | 0 |
| Water Transfers | 320,000 | 1,331,565 | 821,565 | 0 | 0 | 0 | 0 | 510,000 | 0 | 0 | 0 | 0 |
| Water Use Efficiency | 131,156,708 | 525,051,179 | 5,766,073 | 0 | 52,695,388 | 9,363,874 | 6,156,844 | 80,899,000 | 0 | 0 | 0 | 370,170,000 |
| Watershed | 1,291,719 | 80,887,186 | 18,380,618 | 0 | 4,719,807 | 33,368,761 | 0 | 533,000 | 0 | 0 | 0 | 23,885,000 |
| Uncategorized ⁶ | 12,077,911 | 105,519,399 | 105,519,399 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Totals | \$448,260,968 | \$2,508,087,792 | \$217,506,087 | \$416,183,302 | \$250,940,092 | \$137,982,107 | \$9,574,893 | \$217,345,000 | \$25,110,000 | \$51,326,311 | \$95,212,000 | \$1,086,908,000 |

¹ Amounts include encumbrances for fiscal year 2003-04.

² Amounts were confirmed to the U.S. Office of Management and Budget, Crosscut Budget.

³ Includes expenditures from various state agencies that contributed to the Science and Water Use Efficiency program elements.

⁴ See discussion in federal expenditures methodology for list of agencies.

⁵ Amounts are based on estimates provided to the Authority by implementing agencies.

⁶ Includes expenditures funded by the Department of Water Resources and expended by the Authority, that were not identified by program element.

USBR – U.S. Bureau of Reclamation
SWP – State Water Project
CVPIA RF – Central Valley Project Improvement Act Restoration
Fund

Tracking of Local Program Expenditures

Local agencies also expend their own funds on program activities, some of which are in the form of grant matching funds. Due to the large number of these local agencies, potential number of grant contracts, and differences in their accounting systems, it was not practical to obtain the actual local expenditures. Alternatively, we inquired about the methods used by state agencies to monitor these funds.

Specifically, we assessed the existence and adequacy of state-level tracking of local grant matching expenditures in the Ecosystem Restoration, Storage, and Watershed programs. In general, our assessment indicated that some agencies maintained local matching information for two purposes: (1) for use as criteria in awarding grants in a competitive process, and (2) for tracking and reporting a project's total value. Not all agencies maintained this information, and any recorded amounts comprised only the planned or obligated match as stated in the grant contracts, not actual expenditures. Ecosystem Restoration staff indicated that local match is verified prior to disbursement of grant funds; however, records are not maintained to support this verification, nor is the actual amount of local match reported to the Authority. Consequently, there are no statewide mechanisms in place to ensure that local matching expenditures are consistently and accurately reported to the Authority. In the *Observations* section of this report we provide suggestions for improving the tracking of these funds.

In performing our review of program expenditures, we identified areas where the control and accountability for program funds could be improved, and provide the following suggestions to ensure accurate financial reporting.

1. Opportunities for Improvement in Fiscal Tracking at State Implementing Departments:

- A. State departments record program expenditures in funds that also support other (non-CALFED) programs; however, the specific CALFED expenditures are not easily and readily identifiable. Departments had to expend considerable effort in creating, estimating, and reconstructing the specific CALFED amounts in total and by program element. We recommend that state agencies develop a formalized, ongoing process for identifying these expenditures by using PCAs or supplemental spreadsheets that reconcile with the accounting system and financial reports.
- B. The allocation of program expenditures to specific elements was not documented. Our impression is that many departments had to speculate on which expenditures related to individual program elements. We recommend that departments establish a consistent, documented cost allocation process.
- C. Some fiscal information is currently tracked by program staff; however, these individuals do not always communicate and reconcile amounts with their counterparts in budget and accounting units. We recommend that departments establish internal communication, coordination, and reconciliation procedures for all operating units involved in fiscal reporting.
- D. Departments do not track local grant matching expenditures. Amounts reported in the Authority's annual report are estimates, and there is no assurance regarding the accuracy and completeness of these amounts. The Authority may want to determine whether tracking of local expenditures is needed, and if so, require implementing departments to develop a formal, consistent process for compiling and reporting these costs.

2. Opportunities for Improvement in Fiscal Tracking at the Bay-Delta Authority:

- A. For its annual report, the Authority compiles and presents budgeted/estimated funding information for all of the implementing agencies (federal, state, and local). The Authority maintains a perpetual database of agency-reported information; however, this database is continuously updated and cannot provide historical balances as of a given date. For example, we could not obtain cut-off balances as of June 30, 2004. The Authority may want to modify the database to allow for historical queries.

- B. Another potential weakness of the Authority's annual report is that it is based on agency-reported information. There is no assurance about the accuracy and completeness of this information. The Authority may want to obtain supporting documentation and validate some of the amounts on a sample basis.
- C. In addition to its annual budgetary presentation, the Authority may also want to consider compiling the actual expenditures for purposes of showing remaining appropriation balances. This could be displayed in the annual report or in a separate internal management document.

C ONCLUSION

Our review summarizes the cumulative state, federal, and local funds expended on the CALFED Bay-Delta Program through their respective fiscal years ending in 2004. In connection with our review, we also identified areas where the control and accountability for program funds could be strengthened, and have provided recommendations to improve fiscal operations. If implemented, these procedures will assist agencies in reporting complete and accurate program results and financial data in accordance with the assertions of management in the annual financial statements.

The results and observations in this report are based on fieldwork performed between July 1, 2005 and October 31, 2005.

Original Signed By:

Diana L. Ducay, Chief
Office of State Audits and Evaluations
(916) 322-2985

October 31, 2005



DATE: December 15, 2005

TO: Michael Genest, Director
Department of Finance
State Capitol, Room 1145
Sacramento, CA 95814FROM: Mike Chrisman
Secretary for Resources

SUBJECT: Draft Reports —CALFED Bay-Delta Program Review – and Fiscal Review

I have reviewed the Department of Finance's draft report on the implementation status of the CALFED Bay-Delta Program (CALFED) through its first five years, and the draft fiscal review report of CALFED through fiscal years ending in 2004. Your work has been constructive and contributes to the overall independent review efforts called for by Governor Schwarzenegger in the May 2005/06 Budget Revision.

I will be forwarding to Governor Schwarzenegger a 10-Year Action Plan that identifies specific actions to revitalize and refocus the CALFED Program. This action plan will be responsive to the issues raised in your reports, the Little Hoover Commission's review of governance, and an independent consultants management review, as well as identifying a near term funding plan, and future funding ranges.

CALFED represents one of the largest and most challenging water management and ecosystem restoration endeavors in the nation. Your team was able to synthesize a large number of historic documents into a thoughtful and insightful review within an aggressive time period. Finance's work is a valuable contribution towards the Governor's commitment to revitalize the CALFED Program.

cc: Joe Grindstaff
Lester Snow
Ryan Broddrick
Celeste Cantu1416 Ninth Street, Suite 1311, Sacramento, CA 95814 Ph. 916.653.5656 Fax 916.653.8102 <http://resources.ca.gov>

Baldwin Hills Conservancy • California Bay-Delta Authority • California Coastal Commission • California Coastal Conservancy • California Conservation Corps
California Tahoe Conservancy • Coachella Valley Mountains Conservancy • Colorado River Board of California • Delta Protection Commission • Department of Boating & Waterways
Department of Conservation • Department of Fish & Game • Department of Forestry & Fire Protection • Department of Parks & Recreation
Department of Water Resources • Energy Resources, Conservation & Development Commission • Native American Heritage Commission • San Diego River Conservancy
San Francisco Bay Conservation & Development Commission • San Gabriel & Lower Los Angeles Rivers & Mountains Conservancy • San Joaquin River Conservancy
Santa Monica Mountains Conservancy • Sierra Nevada Conservancy • State Lands Commission • Wildlife Conservation Board

